



SUMMARY ANALYSIS AND REPORT OF THE USAID GMSE MICROFINANCE DEMAND SURVEY

EXECUTIVE SUMMARY

This Executive Summary reviews the main findings detailed in the “Summary Analysis and Report of the GMSE Microfinance Demand Survey.” The GMSE Microfinance Demand Survey was performed under the auspices of the Georgia Microfinance Stabilization and Enhancement Activity (GMSE), funded by the U.S. Agency for International Development. Specific objectives of the survey were as follows:

1. Create a socio-economic profile of microenterprise owners.
2. Create an institutional profile of microenterprises.
3. Measure the extent of microentrepreneurs’ participation in the informal and formal financial system. Identify the principal barriers to participation in the formal financial system.
4. Estimate the monetary demand for microenterprise loans in the country.
5. Compare the estimated monetary demand for microenterprise loans to the volume of microenterprise loans outstanding in the country so as to determine the gap between supply and demand.
6. Determine the extent of market demand among microentrepreneurs for other formal financial services, including savings, leasing, insurance, and other types of loan products.
7. Assess the potential for barriers to and business growth among microenterprises.

The demand survey used a two-stage sampling strategy. In Stage 1, researchers conducted a census of microenterprises in 11 regions of Georgia. The microenterprise census allows for an estimation of the total number of microenterprises in Georgia and in each analytical stratum (registration status, gender, business sector, location, and region).

In Stage 2, researchers administered the survey to a random sample of 932 microenterprises drawn from the microenterprise census performed in Stage 1. Each survey response is weighted according to its representation in the population of microenterprises, thereby allowing direct extrapolation from the survey to the entire population of microenterprises in Georgia.

The main findings of the Microfinance Demand Survey pertaining to objectives 1-6 above are presented below.

1. SOCIO-ECONOMIC PROFILE OF MICROENTERPRISE OWNERS

The “typical” microenterprise owner:

- Is 47 years old
- Lives in a household of 4.8 persons, of whom 1.7 are under 18 years of age
- Is male (59.4% male vs. 40.6% female)
- Is of Georgian ethnic origin (93.8% vs. 3.2% Azeri vs. 2.0% Armenian)
- Has completed secondary school (35.9%), secondary special school (31.4%), or high school (32.0%)
- Earns additional household income from pensions (34.3%), gardens (32.5%), salaries (16.7%), other businesses (12.7%), remittances (9.1%), and other sources (2.7%).

2. PROFILE OF MICROENTERPRISES

According to the microenterprise census performed in Stage 1, there are 210,060 microenterprises in Georgia. Microenterprises are defined using the standard USAID definition: enterprises with fewer than 10 employees. Employees include the owner, paid and unpaid employees, and full-time and part-time employees. The “typical” microenterprise in Georgia:

- Has been in business 8.7 years
- Operates 9.1 months during the year
- Has 2.9 employees
- Has 1.6 female employees
- Has 0.7 paid employees
- Had 2.5 employees at start-up
- Had 1.3 female employees at start-up
- Generates 77.0% of household income
- Operates in a market characterized by “average” competition (39.3% average competition vs. 26.1% “very high” competition vs. 22.9% “high” competition vs. 7.6% “low” competition vs. 4.1% “very low” competition)

Five analytical strata are used to present the survey findings in the “Summary Analysis and Report:” registration status, gender, business sector, location, and region. The composition of microenterprises in Georgia within these five strata is shown in Table E1.

A more detailed breakdown of microenterprises within the five strata yields the following notable findings.¹

- Overall, employment, both paid and unpaid, is low in all strata. What differences do exist within and across strata are generally insignificant in absolute terms. The low number of paid employees in each stratum suggests that heavy reliance on unpaid family labor is the norm for microenterprises in Georgia.

¹ These are selected findings judged to be among the more interesting or significant. Breaking survey results down by analytical strata typically reveals substantial variation within and across strata. These findings are described in detail in the main report, but they are much too numerous to review all of them in an Executive Summary.

- Female-owned enterprises have been operating on average three years longer than male-owned enterprises but operate only six months of the year compared to ten months among male-owned enterprises.
- Approximately two-thirds of trade, service, and production enterprises are registered compared to only one-third of rural and one-quarter of agriculture enterprises.
- Agriculture enterprises have been in operation on average nearly 17 years, compared to 3-4 years for the other three business sectors, suggesting heavy concentration in family farm-based activities.
- Microenterprises in cities, towns, and markets (which include the large majority of trade and service enterprises) operate 11-12 months of the year compared to 6-7 months for agriculture and production enterprises.²
- A majority or near majority of enterprises are registered in 7 of 11 regions. Exceptions include Guria, Shida Kartli, Mtskheta Mtianeti, and Racha.

Table E1. Number of Microenterprises by Registration Status, Gender, Business Sector, Location, and Region

Strata	Number of Microenterprises in Stratum	% of Microenterprises in Stratum
Registration Status		
Unregistered	107,970	51.4
Registered	102,089	48.6
Gender		
Female	85,284	40.6
Male	124,776	59.4
Business Sector		
Trade	110,259	52.5
Service	16,794	8.0
Production	15,236	7.3
Agriculture	67,681	32.2
Location		
City	49,350	23.5
Town	12,883	6.1
Rural	90,975	43.3
Market	56,852	27.1
Region		
Tbilisi	58,871	28.1
Imereti	22,945	10.9
Guria	8,903	4.2
Samegrelo	25,785	12.3
Achara	48,857	23.3
Shida Kartli	13,645	6.5
Mtskheta Mtianeti	1,380	0.7
Kvemo Kartli	14,017	6.7
Kakheti	7,936	3.8
Racha	5,319	2.5
Samtskhe-Javakheti	2,302	1.1

² Towns are defined as communities with fewer than 40,000 inhabitants. Cities are defined as communities with 40,000 or more inhabitants.

- Trade enterprises dominate (50% or greater of microenterprises) in all but a few analytical strata. The only exceptions include: male-owned enterprises, rural areas, Imereti, Gouria, Achara, Mtskheta Mtianeti, and Racha.
- Agriculture enterprises comprise nearly one-third of unregistered enterprises and approach or exceed a majority of enterprises among male-owned enterprises and in rural areas, Gouria, Achara, Shida Kartli, and Racha.
- Service and production enterprises typically, but with exceptions, comprise less than 10% of microenterprises in any strata.

Within each business sector, a relatively small number of enterprise types dominates microenterprise activity.

- Small stores, small food/non-food stores, market counters selling food, and market counters for selling non-food account for two-thirds of microenterprise activity within the trade sector and approximately one-third of all microenterprise activity in the country.
- Beauty salons and restaurant/café's account for over 40% of microenterprise activity within the service sector and 3.3% of overall microenterprise activity.
- Furniture workshops, mills, carpentry, bakeries, food production, and bake houses account for 86% of microenterprise activity in the production sector and 6.3% of overall microenterprise activity.
- Fruit production accounts for approximately two-thirds of microenterprise activity in the agriculture sector and 20.7% of overall microenterprise activity. Other important enterprises in the agriculture sector include beekeeping, winemaking, and crop production, which account for an additional one-quarter of sector activity and 8.8% of overall microenterprise activity.

An analysis was also performed on the breakdown of enterprises within each of the 11 regions surveyed. The findings are as follows:

- Tbilisi. Small food stores (21.6%), water stands (11.6%), and small non-food stores (11.5%) account for 44.7% of microenterprise activity in Tbilisi. Another 30.5% of microenterprise activity is accounted for by market counters for selling non-food (8.8%), market counters for selling food (8.1%), street trade (7.7%), and beauty salons (5.9%).
- Imereti. Furniture shops account for one-quarter of microenterprise activity in Imereti, while small food/non-food stores (10.0%), market counters for selling non-food (10.0%), and crop production (8.4%) account for another 28.4%.
- Gouria. Fruit production (66.7%), market counters for selling food (8.8%), small food stores (7.1%), and small food/non-food stores (6.7%) account for 89.3% of microenterprise activity in Gouria.
- Samegrelo. Small food/non-food stores account for 46.3% of microenterprise activity in Samegrelo. Another 22.5% of microenterprise activity is accounted for by market counters for selling non-food (8.8%), small food stores (8.1%), and market counters for selling non-food (5.6%).
- Achara. Fruit production (64.3%) and beekeeping (17.7%) account for 82% of microenterprise activity in Achara.
- Shida Kartli. Fruit production (38.1%), small food stores (15.8%), small food/non-food stores (14.6%), and wine making (8.8%) account for 77.3% of microenterprise activity in Shida Kartli.

- Mtskheta Mtianeti. Food production (52.7%), wine making (18.2%), and beauty salons (18.2%) account for 89.1% of microenterprise activity in Mtskheta Mtianeti.
- Kvemo Kartli. Market counters selling food (22.4%), small food stores (14.3%), and market counters for selling non-food (11.7%) account for 48.4% of microenterprise activity in Kvemo Kartli.
- Kakheti. Small food/non-food stores (14.3%), water stands (13.5%), and market counters for selling non-food (10.0%) account for 37.8% of microenterprise activity in Kakheti.
- Racha. Wine making (70.2%) and crop production (15.3%) account for 85.5% of microenterprise activity in Racha.
- Samtskhe-Javakheti. Small food/non-food stores (34.8%), market counters for selling food (20.9%), and market counters for selling non-food (17.2%) account for 81.5% of microenterprise activity in the Samtskhe-Javakheti.

3. PARTICIPATION IN THE FORMAL FINANCIAL SYSTEM

SELF-FINANCING

Overall, 54% of microenterprises in Georgia are able to self-finance. Approximately 50% or more of microenterprises can self-finance in all strata with the exception of enterprises in Guria (24.3%) and Mtskheta (4.4%).

ACCESS TO INFORMAL LOANS

Just under one-quarter (24.1%) of microenterprises borrowed from one informal lender over the past 12 months compared to 4.6% that borrowed from two informal lenders, 1.6% that borrowed from three informal lenders, and 0.1% that borrowed from four informal lenders.

The most common source of informal loans is family and friends (16.6% of microenterprises) followed by money lenders (8.0%), suppliers (5.2%), lotteries (5.1%),³ and pawnshops (3.7%). The average loan size received varied significantly by source ranging from \$279 from lotteries to \$289 from family and friends, \$441 from suppliers, \$529 from pawnshops, and \$680 from money lenders.

ACCESS TO FORMAL LOANS

Overall, 14.5% of microenterprises sought a loan from one or more formal sector lenders over the last 12 months, including 11.5% from commercial banks, 2.3% from non-bank microfinance institutions (NBMFIs), and 0.7% from credit unions. Access to formal loans is relatively high among registered, male-owned, trade, and market-based enterprises. Within regions, access to formal loans is highest in Samegrelo (34.5% of microenterprises) followed by Kvemo Kartli (17.0%), Kakheti (15.5%), Tbilisi (13.5%), Shida Kartli (11.6%), and Imereti (10.3%).

³ Lottery is the term in Georgia for a Rotating Savings and Credit Association, or ROSCA.

Of microenterprises that sought formal loans, 87% received them, suggesting a high degree of self-selection: only those who believe they will receive a formal loan apply for one. The average loan terms received were as follows.

- Average loan size. The average loan size was \$4,870 overall and \$6,014 at commercial banks, \$654 at NBMFIs, and \$330 credit unions.
- Average monthly payment. The average monthly payment was \$488 overall and \$596 at commercial banks, \$91 at NBMFIs, and \$59 at credit unions.
- Average loan term. The average loan term was 10.1 months overall and 11.3 months at commercial banks, 5.2 months at NBMFIs, and 6.1 months at credit unions.
- Average repayment period. The repayment period was monthly in 61.9% of loans, weekly in 30.1% of loans, and every two weeks in 6.0% of loans.

Of the small number of microenterprises turned down for a formal loan, 90.3% gave lack of security and another 33.4% gave poor business returns as the principal or secondary reason.

A bare majority (52.9%) of formal borrowers used the loans to purchase business inventories and another one-third used the loans to increase their principal business.

Overall, one-fifth of formal sector loans did not require security of any kind. Real property was the most common kind of security taken overall at 58.3% of loans, followed by gold and jewelry at 10.7%.

ACCESS TO INFORMAL AND FORMAL SAVINGS

Only 0.5% of microentrepreneurs across all strata hold cash savings in formal financial institutions. In contrast, all microentrepreneurs save in one informal instrument or another, including 100% who hold savings in liquid assets (e.g., livestock, domestic appliances, real property) and another 28.6% who hold cash savings at home.

When asked the primary reason they do not save at formal institutions, three-quarters of microenterprises say that they have no money to save and another 15.9% say that they do not trust banks. If primary, secondary, and tertiary reasons are totaled, reasons for not saving in formal institutions are no money to save (90.7% of microenterprises), lack of trust in banks (42.9%), afraid of losing money (25.6%), lack of information about banks (15.5%), excessive minimum deposits (13.9%), the distance of the bank from the primary residence (10.2%).

4. MONETARY DEMAND FOR MICROENTERPRISE LOANS

COMPOSITION OF LOAN DEMAND

A total of 65% of microenterprises say they will borrow from a formal lending institution if loans are offered to them at suitable terms and conditions. The percentage of microenterprises wanting formal loans is reasonably consistent across strata. Exceptions include 75% of registered enterprises, 79% of enterprises in Imereti, 47% of enterprises in Shida Kartli, 99% of enterprises in Mtskheta Mtianeti, and 14% of enterprises in Racha.

Overall, the average loan demanded is \$3,536 payable monthly over 23 months. On average, microenterprises can afford a monthly payment of \$136. As seen in Table E2, the composition of loan demand varies significantly within and across strata in terms of the loan size wanted, the loan length, and the monthly payment microenterprises can afford.

Among the approximately one-third of microenterprises that do not want loans, low business returns was given as the most important reason (23.0%) followed by no need for loans (20.4%), high interest rates (15.3%), and lack of credit experience (11.9%). If all primary, secondary, and tertiary reasons for not wanting loans are totaled, low business returns is mentioned overall by 41.7%, no need for loans by 33.4%, do not like to be in debt by 28.8%, high interest rates by 27.8%, and lack of security by 25.3%.

For microenterprises indicating interest in formal loans, just over 70% said that they would use the loan either to develop their existing business (48.8%) or to purchase business inventories (21.7%). Another one-quarter would use the loan either to purchase raw agriculture materials (13.4%) or to start a new business (10.3%).

Overall, 58.8% of microenterprises expressing demand for formal loans can offer some kind of loan security. Of these, 69.6% can offer real property as security, 28% can offer gold or jewelry, 23.7% can offer movable property, such as domestic appliances or furniture, and another 11% can offer fixed business assets.

Table E2. Composition of Loan Demand by Gender, Business Sector, Location, and Region

Strata	Want Loan (%)	Size of Loan Wanted (GEL)	Size of Loan Wanted (\$)	Monthly Payment That Can Make (GEL)	Monthly Payment That Can Make (\$)	Loan Term Wanted (Months)	Can Provide Security (%)
Registration Status							
Unregistered	62.0	4,438	2,311	238	124	19.6	57.0
Registered	75.0	8,952	4,663	288	150	25.0	65.0
Gender							
Women	61.0	5,616	2,925	267	139	22.1	68.0
Men	68.0	6,957	3,623	260	135	23.7	56.0
Business Sector							
Trade	63.0	7,585	3,951	285	148	22.4	61.0
Services	69.0	8,198	4,270	262	136	34.7	69.0
Production	71.0	5,735	2,987	97	51	30.2	23.0
Agriculture	66.0	5,437	2,832	247	129	19.4	68.0
Location							
City	69.0	5,214	2,716	230	120	26.1	66.0
Town	70.0	6,710	3,495	293	153	27.6	59.0
Rural	67.0	5,225	2,721	222	116	22.3	57.0
Market	57.0	11,423	5,949	358	186	20.3	62.0
Region							
Tbilisi	65.0	10,084	5,252	303	158	24.1	65.0
Imereti	79.0	9,452	4,923	134	70	31.8	23.0
Gouria	69.0	2,179	1,135	177	92	21.2	70.0

Samegrelo	52.0	6,663	3,470	511	266	19.8	74.0
Achara	76.0	3,672	1,913	223	116	15.9	65.0
Shida Kartli	47.0	3,006	1,566	98	51	22.9	74.0
Mtskheta Mtianeti	99.0	7,814	4,070	265	138	62.9	24.0
Kvemo Kartli	64.0	5,656	2,946	186	97	29.7	74.0
Kakheti	61.0	7,502	3,907	373	194	24.1	51.0
Racha	14.0	12,970	6,755	313	163	45.1	87.0
Samtskhe- Javakheti	50.0	2,556	1,331	117	61	20.1	52.0

POTENTIAL AND EFFECTIVE DEMAND

Potential demand is equal to the number of microenterprises in the country that wants loans multiplied by the average loan size demanded. The former value equals 136,539 ($0.65 * 210,060$), and the latter value equals \$3,536. Potential demand is thus equal to \$482,801,904 (GEL 926,979,655).

Potential demand most likely overstates actual demand. Potential demand measures what micro-entrepreneurs *want* to borrow. Arguably a better measure of demand is effective demand, which is equal to what microentrepreneurs *can afford* to borrow. According to the survey, the average monthly payment (principal and interest) microenterprises can afford is \$136. Based on information from Georgian microfinance institutions, the monthly interest rate charged for microenterprise loans averages around 4% on both a declining balance and flat basis. If we assume a 4% declining balance, a monthly payment of \$136, and a 23-month loan period, this implies an average loan value of \$2,021. Multiplying this amount by the estimated number of microenterprises that want a loan produces a total effective loan demand of \$275,945,319.

If we substitute a 4% flat interest rate into the above assumptions, this produces a total effective loan demand of \$218,462,400.

Table E3 shows how potential and effective demand for microenterprise loans breaks down by analytical strata. The figures in Table E1 are based on the average demand characteristics unique to each of the stratum. For this reason, potential and effective demand differs across strata and from the figures given above. Estimates of effective demand in Table E1 assume a 4% monthly declining balance interest rate.⁴

⁴ Declining balance interest rates are standard in more developed financial systems, principally because they are more transparent than fixed rates in that the effective interest rate matches the stated interest rate (assuming away loan fees). Fixed interest rates are a way for MFIs to charge higher than stated interest rates, because the effective interest rate is higher than the stated interest rate. It is assumed that as the Georgian microfinance market becomes more competitive, it will drive down interest rates and force MFIs to be more transparent about pricing.

Table E3. Potential and Effective Microenterprise Loan Demand in Georgia by Registration Status, Gender, Business Sector, Location, and Region

Strata	Potential Loan Demand (GEL Millions)	Potential Demand (\$ Millions)	Effective Demand (GEL Millions)	Effective Demand (\$ Millions)
Registration Status				
Unregistered	271.0	141.2	195.0	101.6
Registered	626.0	326.1	314.6	163.9
Gender				
Female	292.2	152.2	201.2	104.8
Male	590.2	307.4	332.8	173.3
Business Sector				
Trade	526.9	274.4	288.5	150.3
Service	95.0	49.5	56.2	29.3
Production	62.4	32.5	18.5	9.6
Agriculture	242.9	126.5	147.4	76.7
Location				
City	177.6	92.5	125.7	65.5
Town	60.5	31.5	43.8	22.8
Rural	318.4	165.9	197.9	103.1
Market	370.1	192.8	158.8	82.7
Region				
Tbilisi	386.5	201.3	177.7	92.6
Imereti	171.3	89.2	43.4	22.6
Gouria	13.4	7.0	15.3	8.0
Samegrelo	89.3	46.5	92.4	48.2
Achara	136.4	71.0	95.9	50.0
Shida Kartli	19.3	10.0	9.3	4.8
Mtskheta Mtianeti	10.7	5.6	8.3	4.3
Kvemo Kartli	50.7	26.4	28.7	15.0
Kakheti	36.3	18.9	27.6	14.4
Racha	9.7	5.0	4.8	2.5
Samtskhe-Javakheti	2.9	1.5	1.8	1.0

To see how sensitive the estimates of effective demand are to changes in interest rate assumptions, effective demand in each of the 11 regions was recalculated assuming declining balance interest rates of 3% and 5% as seen in Table E4. Based on this simple sensitivity analysis, the effective demand for microenterprise loans in Georgia is estimated to lie somewhere between \$239 million and \$292 million.

Table E4. Effective Demand for Microenterprises Loans under Different Interest Rate Assumptions

Strata	Effective Demand at 3% (\$ Millions)	Effective Demand at 4% (\$ Millions)	Effective Demand at 5% (\$ Millions)
Tbilisi	102.9	92.6	83.8
Imereti	25.8	22.6	20.0
Gouria	8.8	8.0	7.3
Samegrelo	52.7	48.2	44.2
Achara	53.8	50.0	46.5
Shida Kartli	5.4	4.8	4.4
Mtskheta Mtianeti	5.3	4.3	3.6
Kvemo Kartli	16.9	15.0	13.3
Kakheti	16.0	14.4	13.0
Racha	3.0	2.5	2.2
Samtskhe-Javakheti	1.0	1.0	0.9
Total	291.5	263.4	239.0

5. COMPARISON OF POTENTIAL AND EFFECTIVE DEMAND FOR MICROENTERPRISE LOANS TO EXISTING SUPPLY

Tables E5 shows the existing supply of microenterprise loans, number of microenterprise clients, average loan size, and percentage of women clients in Georgia as of March 2004. The total number of microenterprise clients is 43,969, consisting of 34,622 (79%) at NBMFIs and 9,347 (21%) at commercial banks. The total volume of loans outstanding is \$24.9 million (GEL 47.8), of which \$11.1 million (GEL 21.3; 44.5%) is outstanding at NBMFIs and \$13.8 million (GEL 26.6; 55.5%) is outstanding at commercial banks.

Table E6 compares the potential and effective demand for microenterprise loans in Georgia to actual supply as of March 2004. The figures for potential and effective demand are calculated by summing up the potential and effective demand from each of the 11 regions using the unique demand characteristics from each region and assuming a 4% monthly declining balance interest rate.

The gap between potential demand and existing supply is \$458 million (GEL 878 million), and the gap between effective demand and existing supply is \$238 million (GEL 457 million). In terms of clients, NBMFIs and commercial banks have penetrated only 31.7% of the market. The relevant percentages for NBMFIs and commercial banks are 25.0% and 6.7%.

In terms of loan volume, NBMFIs and commercial banks have penetrated only 5.2% of the potential market and 9.5% of the effective market. The relevant percentages for NBMFIs are 2.3% and 4.2%, and the relevant percentages for commercial banks are 2.9% and 5.3%.

**Table E5. Supply of Microenterprise Loans as of March 2004:
Volume of Loans and Number of Clients**

Institution	Volume (GEL 000's)	Volume (\$ 000's)	Clients	Average Loan Size (GEL)	Average Loan Size (\$)	% Female Clients
NBMFIs						
Business Assistance Initiative	749	390	424	2,275	1,185	56.0
Charity Humanitarian Center	810	422	1,061	1,384	721	71.0
Georgian Rural Development Fund	4,683	2,439	2,115	3,936	2,050	9.0
Small Business Development Fund	703	366	1,409	499	260	53.0
Support for Development	541	282	549	1,651	860	58.0
Constanta	5,737	2,988	17,792	326	170	71.0
Association of Union Trust	1,350	703	1,892	851	443	66.0
World Vision	1,628	848	1,652	1,812	944	68.0
FINCA	3,435	1,789	6,834	864	450	65.0
BBK Financial	1,160	604	1,302	2,500 ^a	1,302	69.0
Society Development Association ⁵	500	260	483	1,035	539	58.0
Total NBMFIs	21,297	11,091	34,622	1,558^b	811^b	59^b
Commercial Banks						
ProCredit Bank ^c	21,561	11,230	8,536	2,504	1,304	36.4
TBC Bank ^c	2,110	1,099	270	10,524	5,481	NA
Tbil Universal ^c	2,880	1,500	541	8,316	4,331	45.0
Total Commercial Banks	26,551	13,829	9,347	7,114^b	3,705^b	41.0^b
Total	47,848	24,920	43,969	2,748^b	1,431^b	55.8^b

^a Unweighted average of group and individual loans.

^b Unweighted cell average.

^c Microfinance department only.

**Table E6. Potential and Effective Demand for Microenterprise Loans in Georgia
Compared to Existing Supply of Microenterprise Loans**

Potential Demand (GEL millions)	926
Potential Demand (\$ millions)	483
Effective Demand (GEL millions)	505
Effective Demand (\$ millions)	263
Loans Outstanding (GEL millions)	48
Loans Outstanding (\$ millions)	25
Potential – Outstanding (GEL millions)	878
Potential – Outstanding (\$ millions)	458
Effective – Outstanding (GEL millions)	457
Effective – Outstanding (\$ millions)	238
Potential microenterprise loan clients	138,573
Current microenterprise loan clients	43,969
Potential clients – Current clients	94,604

⁵ Updated supply information for Society Development Association was not available for this study. Instead, supply information from the November 2003 “Microfinance Mapping Survey” is used under the assumption that the figures will not have changed much in the interim. In any case, SDA is small enough that some degree of measurement error will not materially affect the estimates.

6. DEMAND FOR OTHER FINANCIAL SERVICES

Microenterprises expressed moderate to strong demand for several types of other financial services as seen in Table E7. Nearly 40% of microenterprises expressed demand for health insurance; approximately one-fifth for supplier credit and housing loans, approximately 12%-16% for leasing, land loans, auto insurance, consumer loans, and life insurance; and less than 10% for education loans, medical loans, and savings.

Table E7. Demand for Other Financial Services

Financial Service	%
Health Insurance	38.1
Supplier Credit	18.9
Housing Loan	18.5
Leasing	15.8
Land Loan	15.8
Auto Insurance	14.1
Consumer Loan	13.1
Life Insurance	12.7
Education Loan	8.3
Medical Loan	7.8
Savings	4.5

The demand for other financial services broken down by analytical strata is shown in Table E8.

Table E8. Demand for Other Financial Services in Georgia by Registration Status, Gender, Business Sector, Location, and Region (%)

Strata	Leasing	Life Insurance	Health Insurance	Auto Insurance	Land Loan	Housing Loan	Medical Loan	Education Loan	Consumer Loan	Supplier Credit	Savings
Registration Status											
Unregistered	17.1	20.1	35.6	18.8	20.3	12.8	7.4	7.7	13.2	16.0	2.8
Registered	9.7	27.0	36.6	11.4	14.2	21.9	8.3	10.4	10.7	22.8	5.6
Gender											
Female	10.8	24.4	41.1	6.9	9.1	22.6	13.4	12.6	18.5	24.1	4.5
Male	13.9	20.2	36.0	19.0	20.4	15.7	4.0	5.4	9.4	15.4	4.4
Business Sector											
Trade	9.3	22.6	39.3	9.9	11.5	24.2	11.4	8.8	19.0	26.2	7.3
Service	21.4	25.4	34.1	13.3	20.8	23.3	7.7	9.3	19.0	15.9	5.6
Production	23.1	16.5	19.2	14.5	3.9	25.6	3.1	21.5	4.1	6.3	1.1
Agriculture	13.7	21.1	41.2	21.2	24.4	6.4	3.2	4.3	4.1	10.6	0.2
Location											
City	13.1	36.0	47.9	13.1	15.2	32.0	14.2	9.1	21.2	26.9	7.8
Town	25.7	12.6	24.0	2.0	20.1	18.7	9.7	9.1	15.3	39.6	8.2
Rural	16.5	19.2	34.8	19.1	21.0	9.6	3.0	6.7	6.9	15.1	0.4
Market	3.2	16.2	37.9	9.9	7.1	20.9	9.6	10.1	15.5	13.5	7.2
Region											
Tbilisi	8.8	27.6	43.5	12.2	13.5	27.8	12.3	6.6	21.6	23.7	8.1
Imereti	18.5	4.4	14.6	12.1	3.3	13.3	2.6	10.8	1.2	20.7	1.5
Gouria	36.5	21.0	35.7	11.3	15.4	19.1	12.7	22	16.1	29.0	3.6
Samegrelo	4.0	21.0	38.3	5.6	5.6	22.2	5.5	18.1	11.5	11.0	3.4
Achara	0.2	30.2	49.4	29.3	29.9	7.7	1.8	5.9	4.6	0.4	0.1
Shida Kartli	55.1	7.7	18.7	0.4	11.6	17.8	0.8	0.0	26.9	65.9	9.7
Mtskheta Mtianeti	0.6	18.9	5.1	18.9	1.3	2.5	1.3	1.9	0.6	7.0	0.0
Kvemo Kartli	25.8	25.2	37.5	12.7	23.6	32.1	27.2	16.5	19.6	34.7	9.9
Kakheti	6.3	7.7	34.3	6.9	20.9	6.4	7.8	4.3	10.0	10.1	2.0
Racha	5.7	16.2	45.3	2.7	2.7	1.6	11.4	11.8	3.1	2.2	0.0
Samtskhe-Javakheti	36.0	16.9	33.4	8.6	14.2	27.3	0.4	1.3	21.3	22.9	6.2

7. BUSINESS GROWTH POTENTIAL AND BARRIERS TO BUSINESS GROWTH

One-half of microenterprises plan to expand over the next 12 months. The primary means to finance expansion for 61.6% of these is commercial bank loans and another 12.2% through self-financing. Counting all primary, secondary, and tertiary means of financing, nearly three-quarters intend to use bank loans, one-third plan to use money lenders, one-quarter plan to borrow from family or friends, and another one-fifth plan to self-finance or borrow from NBMFIs.

On average, microenterprises in Georgia generate \$5,919 (GEL 11,365) in yearly revenues. The typical microenterprise contributes 77% of household income. Thus average yearly income among microentrepreneur households can very roughly be estimated at \$7,687 (GEL 14,759). Table E9 shows enterprise revenue and estimated household income broken down by analytical strata.

Table E9. Business Revenue and Household Income by Gender, Business Sector, Location, and Region

Strata	Total Revenue (GEL)	Total Revenue (\$)	Business Income as % of Household Income	Estimated HH Income (\$)
Registration Status				
Unregistered	3,932	2,048	73.1	2,802
Registered	19,746	10,284	78.4	13,118
Gender				
Female	8,614	4,486	80.0	5,608
Male	13,151	6,849	74.9	9,145
Business Sector				
Trade	18,424	9,596	83.3	11,520
Service	7,269	3,786	78.0	4,854
Production	5,484	2,856	79.9	3,575
Agriculture	3,805	1,982	65.7	3,016
Location				
City	14,114	7,351	81.2	9,053
Town	10,949	5,703	75.1	7,593
Rural	4,323	2,252	67.7	3,326
Market	21,516	11,206	88.5	12,662
Region				
Tbilisi	23,135	12,049	89.9	13,403
Imereti	12,701	6,615	77.2	8,569
Gouria	1,967	1,024	67.5	1,518
Samegrelo	6,809	3,546	74.6	4,754
Achara	9,457	4,926	68.2	7,222
Shida Kartli	3,589	1,869	70.3	2,659
Mtskheta Mtianeti	1,010	526	82.4	638
Kvemo Kartli	4,452	2,319	79.9	2,902
Kakheti	2,942	1,532	74.1	2,068
Racha	5,485	2,857	55.6	5,138
Samtskhe-Javakheti	3,471	1,808	70.1	2,579

Overall, yearly sales increased at one-third of microenterprises by an average of 28% over the last 12 months. Just over one-half of microenterprise plan to expand their business and sales over the next 12 months by an average of 29.5%

Only 13.2% of microenterprises intend to increase the number of employees compared to 2.7% that plan to reduce employment and 72.0% that plan to leave employment at current levels.

Microenterprises identified eight significant impediments to better business performance. If primary, secondary, and tertiary impediments are considered, weak markets, unstable economic conditions, and competition are each mentioned by approximately 40% or more of microenterprises. High tax payments are mentioned as an impediment to business performance by another one-third of microenterprises, lack of access to financial services by one-quarter of microenterprises, and lack of raw materials, unstable economic conditions, and unstable political conditions by approximately one-fifth of microenterprises each.

8. CONCLUSIONS AND POLICY RECOMMENDATIONS

SUMMARY OF IMPORTANT FINDINGS

To date, Georgian NBMFIs and commercial banks have only scratched the surface of the potential microfinance market, reaching 31.7% of potential clients and serving 9.5% of effective loan demand. The question is why? While the survey findings do not necessarily point to specific answers, they provide clues that merit discussion and follow-up.

Gender Targeting. From a poverty alleviation perspective, targeting women makes sense, as female microentrepreneur households earn approximately one-half of their male counterparts. Nonetheless, female-owned microenterprises account for only 37.6% of effective demand and 38.0% of potential clients. A microfinance strategy that focuses on female-owned enterprises is therefore subject to natural growth limitations.

Loan Size. Four of 11 NBMFIs (Constanta, FINCA, Small Business Development Fund, and Association of Union Trust) have an unweighted average loan size of \$635. These four NBMFIs account for 80% of current NBMFI clients and 52% of outstanding NBMFI loans. Constanta, which alone accounts for 51% of NBMFI clients and 26.9% of outstanding NBMFI loans, has an average loan size of \$326. Loans \$635 or less account for only between 40%-50% of the effective demand in the country, while loans \$326 and under account for less than 20% of overall demand. If the purpose is to target low-income populations, a more effective targeting strategy might be to target unregistered and non-trade enterprises with small loans. (Unregistered and non-trade enterprises each have a higher concentration of low-income households than female-owned enterprises.)

Other Loan Terms. There appears to exist a mismatch between market demand and what NBMFIs are offering. This mismatch between the loan terms demanded and the loan terms offered will naturally limit the extent of potential market penetration.

Sector Targeting. A focus on trade enterprises bypasses a substantial portion of the market. In particular agriculture enterprises make up 28.9% of effective demand (equal to \$76.7 million and 44,669 clients) for microenterprise loans in the country. The Georgian Rural Development Fund (GRDF) is the only NBMFI specializing in agriculture lending, and it has reached only 3.2% of effective demand and 4.7% of potential clients in the agriculture sector.

Geographic Targeting. NBMFIs have targeted primarily four regions: Tbilisi, Samegrelo, Imereti, and Kakheti, each of which has a high concentration of trade enterprises and a low concentration of agriculture enterprises. Agriculture enterprises are concentrated in Guria, Abkhazeti (which has the second largest effective demand in the country), Shida Kartli, and Racha. Outreach to these regions is relatively weak.

Marketing. Only 2.3% of microenterprises report having requested a loan from an NBMFI over the last 12 months compared to nearly one-quarter of microenterprises that have borrowed from informal lenders. One interpretation of this outcome is that NBMFIs have yet to reach large segments of the market. Another interpretation is that informal loans are frequently more accessible or better suited to the wants or needs of microenterprises. A third interpretation is

that NBMFIs have not marketed themselves as well as they might have in the areas where they currently operate.

Limited Range of Financial Services. Among microenterprises that do not want enterprise loans, 41.7 percent cite low business returns and another one-third say they have no need for enterprise loans. These two reasons highlight a constraint to growth among NBMFIs throughout the world: lack of product diversity, both financial and non-financial. The prevalence of low business returns raises the question as to whether provision of business development services (BDS) might be an appropriate component of microenterprise promotion in the country. It also raises the need to diversify offerings into other financial services. A significant percentage of microenterprises expressed demand for a variety of other financial services, including (with the potential market size in parentheses) health insurance (80,032), supplier credit (39,701), housing loans (38,861), leasing (33,189), land loans (33,189), auto insurance (29,618), consumer loans (27,517), and life insurance (26,677). Market penetration will be limited as long as NBMFIs ignore these other financial needs.

Lack of Security. Another significant impediment to borrowing is the lack of security. A common impediment to credit expansion in developing countries is unclear laws regarding the attachment of property, particularly movable property, as security for loans. Given the number of microenterprises willing and able to offer movable property as loan security, clarification of the relevant security laws appears appropriate.

Competition and Stagnant Growth. Two possible contributing factors to stagnant growth within the microenterprise sector are low levels of investment in fixed (productive) assets and high competition within the trade sector.

Savings. Only 4.5% of microenterprises express a demand formal savings. The dominant rationale for not saving is lack of money to save. Nonetheless, 100% of microentrepreneur households hold one form of informal savings or another. So, the evidence suggests unequivocally that they do save. Rather, the low demand for savings appears to be driven primarily by a lack of trust in formal financial institutions as savings intermediaries.

Concentration of Enterprises. The microenterprise sector is dominated by a small number of enterprise types. Five enterprise types account for 56.7% of total microenterprise activity in the country: fruit production (20.7%), small food stores (11.7%), market counters for non-food (11.2%), market counters for food (6.9%), and small food/non-food stores (6.2%).

Poverty Outreach. NBMFIs have had mixed success reaching strata characterized by higher concentration of lower-income households. Poorer microentrepreneurs tend to be more heavily concentrated among unregistered, female, production, agriculture, and rural enterprises and in Gouria, Shida Kartli, Mtskheta Mtianeti, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti. NBMFIs appear to have done a reasonably good job to date reaching unregistered and female-owned enterprises and have achieved reasonable market coverage (as measured by the number of branches relative to effective demand) in Shida Kartli, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti. On the other hand, NBMFIs have done a relatively poor job reaching agriculture and production enterprises, rural areas, Gouria, and Mtskheta Mtianeti.

RECOMMENDATIONS

- Whether the goal is to achieve significant breadth of outreach, and close the gap between supply and effective demand, or significant depth of outreach, it will be necessary to target different market segments with different demand characteristics (e.g., loan size, loan length, repayment frequency, etc.). This will entail promoting a variety of microfinance institutional models and approaches targeting a variety of market segments. An essential component of this approach is developing a strategy to increase outreach to rural and agriculture sectors.
- Promote greater lending to men. While focusing on women may serve social objectives, it unnecessarily excludes a significant portion of the microfinance market. If the goal is to reach poor borrowers, it might make more sense to focus on unregistered and non-trade enterprises, all of which have a higher concentration of lower-income households than female-owned enterprises.
- Promote expansion of NBMFI branches to relatively unserved regions, particularly regions with a high rural/agriculture concentration. In particular, promote expansion to Achara (which has a high concentration of agriculture enterprises and the second highest effective demand among regions in the country) and Gouria, and investigate expansion opportunities into Shida Kartli and Racha.
- Conduct market research to determine more precisely the composition of demand among major market segments. Promote diversification of loan terms consistent with verifiable demand characteristics. Determine also (1) whether market perceptions about impediments to borrowing (e.g., interest rate too high, lack of security) are consistent with actual conditions, (2) the extent to which lack of business knowledge and skills constitutes a barrier to enterprise growth and job creation, and (3) the level of public awareness about NBMFIs operating in their communities.
- Promote diversification of lending to enterprises outside of the trade sector. The heavy concentration of microenterprises in the trade sector and the high level of competition within the sector imply low growth and job creation prospects for the sector. Other sectors have experienced similarly low growth and job creation, but they have not received the same level of resources targeted at them.
- Promote diversification of lending to other enterprises. The purpose is to identify enterprises in different sectors with higher growth and job creation potential and reduce the industry's disproportional, and dangerous, reliance on a relatively small number of trade enterprises and fruit production.
- As an alternative or complement to an incremental shift away from trade, consider integrating business development services into the strategic plan. BDS should be targeted to deal with critical impediments to enterprise growth and job creation. BDS might also focus on investing loans in more productivity-enhancing assets and activities.
- Clarify the laws regarding use of movable property as loan security. If necessary, advocate changes in the law to allow the use of movable property as loan security.

- Promote the development of other financial services, both to meet market demand for the services and as a way to increase demand for enterprise loans. Other financial services that appear to have sufficient market demand to justify feasibility investigations include health insurance; supplier credit; housing, consumer, and land loans; auto insurance; and life insurance. If it is not feasible for NBMFIs to offer these services directly, investigate the potential for linking up with other service providers.
- Promote voluntary savings. Microentrepreneurs say they do not have money to save, but their behavior suggests otherwise. The principal barrier to savings mobilization in the country appears to be not lack of money but lack of trust in the financial system. A program to encourage savings, in which NBMFIs act as facilitators, has potential over time to restore microentrepreneurs' trust in the formal financial system. Research in other countries suggests that savings mobilization often serves as a gateway to greater participation in the formal financial system and higher loan demand.
- Continue to support microfinance. Although microenterprises may not be a sector of dynamic growth or job creation, they are nonetheless a crucial source of paid employment for a significant percentage of the labor force and the principal source of household income among microentrepreneurs.